

MINUTES
MICHIGAN STATE TRANSPORTATION COMMISSION MEETING
August 21, 2008
Farmington Hills, Michigan

Meeting noticed in accordance with Open Meetings Act, Public Act 267 of 1976.

Present: Ted B. Wahby, Chair
 Linda Miller Atkinson, Vice Chair
 Maureen Miller Brosnan, Commissioner
 Steven K. Girard, Commissioner
 James S. Scalici, Commissioner

Also Present: Kirk T. Steudle, Director
 Frank E. Kelley, Commission Advisor
 Marneta Young, Commission Executive Assistant
 Jerry Jones, Commission Auditor, Office of Commission Audit
 Patrick Isom, Attorney General's Office, Transportation Division
 Myron Frierson, Bureau Director, Finance and Administration
 John Friend, Bureau Director, Highway Delivery
 John Polasek, Bureau Director, Highway Development
 Susan Mortel, Bureau Director, Transportation Planning
 Bill Shreck, Director, Office of Communications
 Larry Tibbits, Chief Operations Officer
 Leon Hank, Chief Administrative Officer
 Sharon Edgar, Administrator, Bureau of Passenger Transportation
 Mike Kapp, Administrator, Economic Development and Enhancement
 Rob Abent, Bureau Director, Aeronautics and Freight Services
 Robert Ranck, Jr., Metro Deputy Region Engineer
 Tim Hoeffner, Administrator, Intermodal Policy
 Greg Johnson, Metro Region Engineer

Excused: Jerrold M. Jung, Commissioner

A list of those people who attended the meeting is attached to the official minutes.

Chair Wahby called the meeting to order at 9:00 a.m. in the Farmington Community Main Library Auditorium, in Farmington Hills, Michigan.

Chair Wahby welcomed the Commissioners, staff and those from the audience to Farmington Hills. He thanked Paul Adjeba of the Oakland TSC and Commissioner Mike Rogers of the Oakland County Board of Commissioners for extending the invitation to come to Oakland County.

Chair Wahby introduced and welcomed Commissioner Steven K. Girard of Grand Rapids to the Commission. He succeeds James R. Rosendall who resigned in April 2008.

I. COMMISSION BUSINESS

Commission Minutes

Chair Wahby entertained a motion for approval of the minutes from the State Transportation Commission meeting of July 31, 2008.

Moved by Commissioner Scalici, with support from Commissioner Brosnan, to approve the minutes of the Commission meeting of July 31, 2008. Motion carried.

II. DIRECTOR'S REPORT – DIRECTOR KIRK STEUDLE

Director Steudle thanked Bob Lang, Executive Director of Vehicle Safety at the GM Proving Grounds, as well as the MDOT staff and the partners from Parson's Brinkerhoff and HNTB that provided the VII tours on yesterday.

Director Steudle's report focused on:

Transportation Funding Task Force (TF2) Update

There are only four scheduled meetings left. The Needs Report by the Citizens Advisory Committee (CAC) was received in July. The TF2 has received public comments during every meeting and are ready to tackle the revenue alternatives at the remaining meetings. At the August 11th meeting in Frankenmuth they received 'benefits from investments' information. They heard from FHWA on Public Private Partnerships and asked the CAC to provide additional information on the methodology for needs analysis, reforms, efficiencies and best practices. Over their remaining meetings they will consider aviation revenue alternatives, local revenue alternatives and other revenue options grouped by type. During this time the TF2 will receive the additional information they requested from the CAC and will make their draft recommendations to the Governor and the Legislature.

The remaining meetings are September 8th in Lansing, September 29th in Marquette, October 13th in Alpena, and October 27th in Lansing.

Director Steudle asked for questions; none were forthcoming.

Design/Build/Finance Project Update (I-69)

I-69 DBF Project Costs

The costs estimated as Design-Bid-Build (DBB) in 2008 are: preliminary engineering \$2.4 million, construction cost \$31 million, and construction engineering \$4.5 million for a total cost of \$38 million. The costs estimated as DBB inflated (at 4% per year) to 2012 are: preliminary engineering \$2.8 million, construction cost \$36 million, and construction engineering \$5.3 million for a total cost of \$44.5 million. The cost estimates of Design-Build-Finance (DBF) are: preliminary engineering \$950,000, construction cost \$43.9 million, and construction engineering \$5.4 million for a total cost of \$50 million. The "as let" DBF without lane rental costs are: preliminary engineering \$950,000, construction cost \$35.9 million, and construction engineering \$5.4 million for a total cost of \$42 million.

Commissioner Brosnan asked if an additional \$800,000 would need to be added to this \$42 million to get the lane rental cost.

Director Steudle responded yes.

Commissioner Scalici asked what lane rental is.

Director Steudle answered that lane rental is a “bid item” that is put into contracts. Instead of telling a contractor they can close a road or lanes on the freeway for as long as they want, the contractor has to tell us how many hours or days they will need to close the lane, therefore making them “rent” the lane. That way if they’re not out there working and they can remove the barrels and open it back up, they’re not being charged anything. Once the contract is bid the department starts to subtract from the “bid item amount”. When the contractor gets to the point where there is no money left, they become “charges” to the contract. If they get done with the project and there is money left in the account, they are paid this remaining amount.

Commissioner Scalici commented, then, that is an incentive.

Director Steudle responded that it is essentially an incentive for contractors to work very innovatively and to minimize the amount of traffic disruptions that they have. This is not used on every project; only on accelerated projects where we have an incentive to get the project done earlier.

Commissioner Scalici asked how long the lane rental process has been in place.

Director Steudle responded that it’s been used since about late 1999/2000.

Project Comparisons

Director Steudle presented slides comparing the DBF (I-69) project and two other similar DBB reconstruction projects on I-94 let in 2008. The two I-94 projects each had separate projects to construct crossovers. The costs were added to provide a comparison that was as equivalent as possible. Also the estimate of finance costs, the estimate of preliminary engineering costs, and the costs for construction activities associated with the rest area were removed from the DBF project to provide the most equivalent comparison. The DBF 2008 construction costs showed \$26.7 million and the “as let” costs without lane rental showed \$35.9 million. One I-94 project (JN 76906A: 6.15 miles of freeway reconstruction; includes work at an Interchange and rehabilitation of 5 bridges) showed the 2008 construction costs as \$29 million and the “as let” costs without lane rental showed \$29 million. The other I-94 project (JN 100701A: 6.21 miles of freeway reconstruction) showed the 2008 construction costs as \$25.5 million and the “as let” costs without lane rental showed \$25.5 million. The DBF project is very comparable to the DBB projects let earlier this year.

Financing Lessons Learned

Local bankers are not familiar with the DBF process and were reluctant to extend credit without security. They would be willing to extend credit only if there was a physical

asset securing the loan. This was compounded by an overall tight credit market in the country. This has been referred to as a “flight to quality” whereby investors are only interested in high quality secured debt. Contractors are not necessarily interested in pledging their equipment or other hard assets to secure the DBF debt. The size of this DBF project appears too large for local bankers and too small for investment bankers. Investment bankers in New York, etc. would prefer a \$100 - \$200 million project before they invest the time and effort in looking behind the accounts receivable. As an account receivable on the contractor’s books, the local bank policy views it as unsecured and generally their policy is only to give a 90 day loan – they want to see a turnover in accounts receivable – not a longer term debt like a DBF. We need to continue to reach out to the bankers to discuss ways to make these types of projects more attractive to the banking community.

Design Lesson Learned

From the design side we learned that contractors would prefer more time during advertisement, designers and contractors prefer a stipend larger than provided (a stipend helps to compensate the unsuccessful contractors for the additional bidding costs on DB projects. The additional work includes developing preliminary designs to base a bid off of and is more work than on a traditional project—i.e., the bridge of M-21 over I-75 in Flint provides for a much greater involvement from the design community as innovations. We learned that this stipend also allows the State to own these ideas.

Commissioner Brosnan asked if this stipend was typically a percentage of the estimated cost of the project

Director Steudle answered that he thought it was just a fixed amount however deferred to Chris Youngs, Project Manager for these two projects, for response.

Mr. Youngs responded that we used a fixed amount on our project however other states do have guidelines for project size. Our amount given to each consultant was \$20,000.

Director Steudle added that in other states, if it’s a percentage like 1%, this percent of a potentially \$7 million project would be higher than our \$20,000.

We also gained experience on contracting DBF projects using non-traditional methods, contractors were able to successfully retrieve project information from a File Transfer Protocol (FTP) web site, contractor innovations can be captured in this process through the submission of Alternate Technical Concepts (ATC), and traditional construction management software (Field Manager) can be used on Design Build projects.

Comparison of DBF Pilot Projects (I-69 and M-21)

I-69 is 6.01 miles of freeway reconstruction, preventive maintenance work on 5 bridges, rehabilitation of the Capac Rest area pavement and sidewalk ramps, and landscaping. M-21 includes the replacement of the bridge over I-75 and the demolition of an old Police post.

The I-69 project included an alternate pavement component (modified low bid process) to allow the contractor to propose a concrete or HMA pavement. If HMA and concrete

pavement bids were received, the bids would have been entered into an equation to determine the bid with the lowest lifecycle cost. Only concrete pavement was proposed on this project and the low bidder was the selected contractor. M-21 is using a 2-step process where contractors are first short-listed based on the qualifications of their team, and the final contractor will be selected on a best value selection process. The best value process considers the contractors price, plan for addressing mobility, their progress schedule, their QA/QC plan, their communications plan and any aesthetic enhancements above the minimums in the proposal. Financial, Technical and Price proposals are due on August 28, 2008.

Because a 2-step selection process was used and a more complex preliminary design is required to base their bids on, the M-21 project will provide a stipend to the unsuccessful bidders.

Chair Wahby asked if the department would pay this over a 4-year period.

Director Steudle answered yes. The estimated dollar amount on this one is significantly smaller—\$7 million—but we are doing the same finance method that we did with I-69—equal payments until November 2011.

Chair Wahby asked if they used the lifecycle cost analysis on this project.

Director Steudle responded that we didn't on the bridge because we don't have a lifecycle cost analysis process for bridge projects as we do for pavement projects. This will have some pavement but minimal in comparison to the cost of the bridge. For the I-69 project we moved the lifecycle cost analysis right to the bidding table and that is where we did the alternative pavement bidding.

Chair Wahby asked if this project was going to be concrete.

Director Steudle answered that the I-69 project is going to be concrete.

Commissioner Scalici asked what the driving force was on the M-21 project.

Director Steudle answered that the main driver of the project is that the bridge is in poor condition so it needs to be replaced. It was coming in 2012 anyway so as we looked at DBF potential projects for road and bridge projects, we looked at the population within the Five Year Program and deemed this to be a good candidate.

Chair Wahby commented that this is a significant amount that is in the Five Year Program, and if they are going to be paying it over 4 years, asked what will they do with the void that is created by taking this out of the Program.

Director Steudle responded that if they had more money that fills in on the back-side they could put more jobs in. At this point it ties into what the funding is going to be 4 years from now. We will be able to handle the payment through a cash flow within the department but the Program in 2012 will be short 1 bridge project and 1 freeway reconstruction to the tune of about \$40 million in actual construction dollars.

Project Success

As previously indicated, the I-69 project is well under the engineers estimate created for the project. We are interested to see how the M-21 project comes in due to the complexities of the project and the Best Value selection. The contractor selected on the M-21 project may not be the low bidder because of the Best Value selection process.

MDOT believes that the contract language created for the 2 DBF pilots can be modified for use on future DBF projects without going to the extent that we did on the pilot projects.

MDOT employees have been actively involved in developing the contract documents, developing the financial requirements, and fielding contractor comments. MDOT has not done DB projects in several years, and we have discussed the older projects with staff to try to incorporate any recommendations from those projects into the pilot projects. MDOT will gain more knowledge as these 2 projects are being designed and constructed.

Commissioner Atkinson asked, regarding the financial institutions that are unwilling to finance anything under \$200 million, where in the department do we have the financial expertise that is needed or are we having special consultations.

Director Steudle responded that the department staff is not high finance experts. We have people that understand what is going on but we will still need the financial consultation of an agent that works for us on the legal side and on the financial side that helps protect our interest. We will be able to enter into that contract having a very good idea as to where we are going and understanding the process as we move through as opposed to being totally dependent upon what the financial or legal expert is telling us.

Commissioner Atkinson asked if engaging in this kind of activity means that we are now dealing with another level of contractors.

Director Steudle responded that typically what has happened on PPP across the world is a consortium will come together that has a finance arm, a construction arm and an operations arm. The three will join together to create one new organization that will have all of that capability so there will be another type of contract (concession contract) that the state would enter into.

Commissioner Atkinson commented that she is perhaps more paranoid following the mortgage foreclosure catastrophe, but she is concerned about how we monitor accountability of the financial arm.

Director Steudle responded that we will learn that along the way. We will keep our eye on this and keep bringing back information along the way on the much larger scale. There is going to have to be some changes to that oversight. The existing structure within the department is not going to be able to handle that. There will have to be dedicated specific staff that deals just with that and probably different skill sets.

Commissioner Atkinson added that that is her concern and she is wondering if this means a greater involvement of the Attorney General's office or a legal arm within that office.

Director Steudle responded yes, but how they do that within there he will leave up to them to figure out.

Chair Wahby asked, regarding the bonding capacity, if we go into these types of projects we are extending out payments over a 4-year period along with all the bonding we have, how that affects the bonding cap.

Director Steudle responded that it doesn't affect the bonding cap at all because it is projects that are already identified in the Five Year Program, we already have money 3-4 years from now identified from the federal revenue stream that we are going to use to pay for that.

Commissioner Brosnan asked, when you look at the I-69 example and take into account the fact that the financial, consultation, and legal costs have all been built in to that final number, what then when you look at this project is the overall cost savings is going to be in doing it this way.

Director Steudle answered that he did not have that analysis done yet so would bring that information to the next meeting.

Commissioner Brosnan commented that for her that is the bottom line number in whether or not this is a good idea.

Director Steudle agreed.

Commissioner Atkinson joined in Commissioner Brosnan's concern and added that she would like to see that information at the next meeting.

Highway & Multimodal Needs

Sharon Edgar – Passenger Transportation

Local transit is the collection of local services that are provided at the community and county level for local bus service. We have service in all 83 counties and over 80% of the population has access. We are serving 94 million passengers a year under this current system; getting people to work, shopping, medical appointments, recreation and more. We are also talking about the system with a future where transit is evolving and where we are moving into rapid bus, light rail and commuter rail.

In the intercity passenger area we are talking about intercity bus and passenger rail. Intercity bus consists of 3 private sector carriers (Indian Trails, Greyhound Lines, Megabus), serving 120 Michigan communities that connects people community to community but also to the national network in Chicago and Milwaukee. It includes both private sector services and state purchase services. Passenger rail involves the intercity/interstate service (Amtrak), serving 22 southern lower Michigan communities that connects people to the national network in Chicago and consists of service that

Amtrak brings to the state (the Wolverine which is Detroit to Chicago) and state procured service from Amtrak (the Pere Marquette and the Blue Water).

All of these programs are CTF programs and the role of state funding differs from mode to mode. In local transit the CTF shares in local operating costs and is used to match federal grants (mandated under Act 51 of 1951). Seventy-nine transit authorities and 40 specialized service agencies receive CTF funding. In intercity bus and passenger rail CTF purchases service and funds infrastructure improvements.

The current investment benefits we receive include: mobility yields economic returns, enhanced community and personal health, reduced fuel consumption, enhanced national security, reduced highway and airway congestion and improved air quality. The additional benefits with rail include: a benefit to cost ratios for specific rail transit projects as high as 9:1, increased property values, increased economic development and access to additional federal funds.

The critical challenges in passenger transportation involve the increased demand/need for transit (by 2030, the senior population will have doubled; 10% - 20% ridership increases; from the MI Transportation Plan we know that the public wants more transit/more travel options); the cost of providing the service is increasing (transit fuel costs in 1995 were \$9.9 million—in 2007 the fuel costs were \$37.7 million); and the State transit funding is decreasing (cannot maintain the existing system, cannot leverage available federal funds, and cannot provide for system growth and modernization).

Commissioner Brosnan asked if it were fair to say that, if we were currently operating in a good system, we would have garnered \$220 million more in federal funds had we been able to match at this level.

Ms. Edgar answered yes, but it is not an exact cause and affect relationship. The federal funds we are mostly leveraging are guaranteed—they're annual funds that are coming to the state through formula and annual earmarks. Under the "good" scenario we are moving more into competitive programs and that is the maximum amount of federal funds they would leverage. Experience shows that other states are leveraging these but it can't be said that with this level of investment you are guaranteed those federal funds.

Commissioner Brosnan asked if this was over 5 years.

Ms. Edgar answered that for the passenger transportation it is the annual average investment over the period of 2009-2013 which was our study period.

The results of continuing the current investment of \$192.9 million in state revenues while leveraging \$47.9 million in federal funds show that not only will we be unable to compete for new federal funds for rapid transit, will begin to lose existing federal funds needed to maintain our existing bus systems. The results also show that current revenues will not be sufficient to maintain intercity bus contracts, MDOT will need to reduce the routes it subsidizes (communities will lose intercity bus access and connections to the national network). Additionally, current revenues will not be sufficient to maintain Amtrak contracts for Blue Water and Pere Marquette. If MDOT no longer purchases this

additional service from Amtrak, their continued support for the Wolverine will be in jeopardy.

What you'll get with the "good" investment (\$507.6 million in state revenues; leveraging up to \$265.1 million in federal funds) is: 4 rapid and/or regional transit projects (Grand Rapids area bus rapid transit, Woodward Avenue Light rail transit, Ann Arbor - Detroit Commuter rail (demo), Howell - Ann Arbor Commuter rail) are able to proceed, potential to double intercity passenger rail frequency over 10 years, intercity bus service contracts maintained and improved intercity passenger facilities.

Commissioner Brosnan asked if we were in the "good" scenario, would we be able to launch the Grand Rapids project, continue to study the Light rail at Woodward or would we launch a project there.

Ms. Edgar responded that for the Light rail at Woodward we looked at the current estimates that are available in terms of the cost of construction (cost of the state matching the total project cost at 20% and the state matching the operational cost) as they exist right now.

Commissioner Brosnan then asked, regarding the Ann Arbor - Detroit, if that would be the demo and the 2010 service.

Ms. Edgar responded that it is the cost of the 2010 service, which is the demo, then we built in the cost of (once we get to the demonstration) matching that \$100 million for construction. The total cost of the final construction of Ann Arbor – Detroit could be a lot more than \$100 million but what we added in was just the \$20 million it would take to get at that construction money.

Commissioner Brosnan asked about Ann Arbor - Howell.

Ms. Edgar said, again, they have initial estimates for Ann Arbor – Howell on the infrastructure improvements, the capital costs and then the operating costs. Again it's the cost of the state sharing in those.

Also, with the "good" investment you'll get: expanded transportation services targeted to Michigan's senior population, expanded programs that provide alternatives to single car commuting (carpooling/vanpooling), and local bus agencies will be able to maintain and expand/enhance services as needed.

Commissioner Atkinson commented that one of the pieces she felt was missing from the CAC analysis on transit in order for her to analyze what "good" means, and may also be missing from freight, was the value of existing assets and the cost of ignoring the asset management, particularly within the rail component. There are tracks all throughout Michigan that could be used, might be used, need to be evaluated, haven't been used, but could be part of either or both of these pieces. She then asked if there were any asset management information on the value of those—most of them are privately owned.

Ms. Edgar responded that it is not so much asset management but, for example, when they looked at increased frequency in passenger rail (which is almost predominately on private railroad), they did include the cost of infrastructure improvements (with the idea that this would be born by the state) but did not look at the private sector investment that would be needed. Further, one of the things not included in either area is the idea of taking routes that currently don't have passenger rail on them and what it would take to maintain them or expand them. The most common one that gets talked about is Ann Arbor – Traverse City. If that were to be entirely funded with state resources that would potentially add another \$200-\$300 million onto these needs.

Nikkie Johnson – Freight Services and Safety Needs

Ms. Johnson added to Ms. Edgar's previous response by saying that the state owned 530 miles of rail line (of the 3,600 miles that we have) and on that 530 miles we do have an asset management plan. In dealing with the privately owned rail lines it's exceedingly difficult sometimes to get the information from the railroads because much of it they consider proprietary information. It is something that we are trying to push for so we can fill in those blanks.

The 3,600 miles of track in Michigan are operated by 26 companies. In 2003, Michigan's railroad system carried 120 million tons of freight, exceeding \$162 billion (about 18% of all Michigan's commodity movements). Consistent with a national trend, Michigan's rail infrastructure is increasingly owned and operated by short-line railroads (smaller railroads with lower labor costs). Currently, approximately 22 of the 26 operators in Michigan are short-lines. With Michigan's peninsular geography and dependence on agricultural and mining operations, these operations play a significant role in the economy. Short-line railroads, however, inherently have less capital to invest into the system. It is estimated that the state's rail infrastructure saves the state \$266 million of annual investment in public roadways and enhances mobility on the roadway system. Looking to expand transportation capacity and maximize limited resources, there has been an increasing national push for states to invest in the rail system.

Rail lines are almost exclusively privately owned and financed, with companies investing over \$100 million in Michigan's rail infrastructure annually. MDOT's rail programs' provide limited funding assistance, focusing on grade crossing safety and the preservation/expansion of the state's rail system. In upcoming FY 2009, \$6.3 million federal aid and \$3 million MTF dollars will be distributed specifically for railroad crossing safety for the approximately 4,800 public grade crossings in the state. Approximately \$4.3 million CTF dollars is expected to be available for the capital preservation and expansion of the freight rail system, including the rehabilitation of the state-owned lines. Our budget has not yet been passed. It likely will not pass until shortly before/after the new fiscal year. However, it appears the funding level is similar to recent years. We anticipate at least \$2.5 - \$3 million in unallotments to the CTF in FY 2009 (revenue won't be there to fund the entire appropriation). We don't know what the exact dollar figure will be or how it will be allocated among CTF programs. However, FY 08 unallotments took a few hundred thousand dollars from our Michigan Rail Loan Assistance Program and \$100,000 from our preservation and development fund so we're prepared for it to have some effect on our CTF-funded programs.

Our rail freight program investments are currently about \$13.6 million, collectively (\$9.3 is utilized for grade crossing safety, including safety enhancements at grade crossings, crossing eliminations and surface improvements at trunkline crossings, \$4.3 is distributed for the capital preservation and expansion of the rail system through economic development loans, infrastructure preservation loans, and the management of the 530 miles of state-owned rail lines). An additional \$5 million (\$3.3 for grade crossings and \$1.7 for system preservation and expansion) would return programs to historical funding levels and preserve program efforts.

Breaking the Rail Freight Program needs (return on investment) down between “current” and “good”: “current system”—the combination of reduced allocations and increases in project costs is forcing us to scale back grade crossing safety efforts, delay track rehabilitation projects, and limit our economic development efforts; “good system”—an additional \$5 million investment would restore our grade crossing safety efforts, make adequate funding available for state-owned line management, allow us to move forward with some delayed track rehabilitation projects, and make some additional funds available for infrastructure and economic development loans—the “good” scenario would still be limited, it simply restores recent funding losses.

Commissioner Brosnan asked if, in the big picture scenario, we are seeing changes in the way goods are transported as a result of the increased gas cost—are more people turning to rail to transport their goods.

Ms. Johnson answered that certainly that is what the railroad industry is claiming. It appears that goods will continue to be transported through the trucking industry primarily, however the railroad industry is very hopeful that they will be able to garner a portion of the market that they don’t yet have. Our anticipation moving forward, in terms of forecasting, would be that the percentage of commodity movements through Michigan would probably stay about the same (18%).

Commissioner Atkinson commented that one piece of information the CAC did not have was who, if anyone, regulates these short-line railroads because they appear to be independent of everything.

Ms. Johnson responded that we have some regulation efforts that are focused on grade crossings for motorists’ safety. We require that railroads certify bridge inspections to us on a bi-annual basis, however anything beyond that falls under the Federal Railroad Administration which would then be inspecting track to make sure that that track is within the standard that it needs to be for the speeds that they’re operating.

Commissioner Atkinson then asked about an authority that would coordinate inter-line or inter-service agreements so that these short-lines could be put into some kind of coordinated rail system which doesn’t appear to exist.

Ms. Johnson responded that essentially short-lines are almost like the version of a local road and they tie in to the Class One railroads that then expand throughout the country. There is maybe not as much coordination as what should be because they are competing

for the shippers, but hopefully with the increasing presence within the state it's something we can help facilitate. She doesn't know if it is something they can enforce, but maybe there are incentives that can be offered to encourage their working together. The Standing Committee on Rail Transportation is talking about developing a rail plan for state which would bring everyone together to make sure they are on the same page and try to move forward together.

Commissioner Atkinson asked if that was going to contemplate some kind of coordinated rail plan that would include both freight and passenger.

Ms. Johnson answered yes, because most of the passenger movement is happening on this infrastructure.

Matthew Brinker – Aviation Needs

Aviation fuel tax is the main source of state revenue for the Aeronautics Fund. Michigan is a block-grant state which means we receive a lump sum federal disbursement for airport capital projects and, in turn, decide on the state level where those funds should be spent. Not only does this allow greater state control of our airport infrastructure but we benefit from the substantial interest earned by "banking" that large sum of federal money until projects are paid. We also receive revenue from transport services with state aircraft and from airports for our operation of state-owned navigation aids.

The base rate for aviation fuel taxation has never been adjusted for inflation. In fact, the only adjustment made to the aviation fuel tax rate occurred in 1945 when the Aeronautics Code was revised to allow a 50% decrease in the rate charged to interstate airlines. Adjusted for inflation, the 3 cent per gallon rate (1929) would equate to approximately 36 cents per gallon today. The state fuel taxes accounted for 14% of the cost of a gallon of fuel in 1929. In 1968, that amount was reduced to 7.5%. In 2007, only .7% of the fuel cost was attributed to state excise taxes. These percentages don't even account for the 50% discount given to interstate airlines. Even without adjusting for inflation, 2008 is expected to produce the lowest revenue since 1996. Furthermore, the projections are very optimistic since they were based on YTD declines in fuel purchased during the first two quarters of the fiscal year. This was before oil prices skyrocketed.

By 2012, under a "do nothing" funding scenario, the average airport pavement will degrade to a point that major rehabilitation will be required. However, investment as outlined in our "good" funding scenario will allow proper preventive maintenance which will actually cost less over the long term. In a "do nothing" scenario we have about a \$115 million annual capital program (about 2/3 goes into preservation of our infrastructure, rebuilding runways and taxiways, keeping our airports up to par; 1/3 goes into addressing demand capacity needs). We would also not be able to fund several of the state/local programs. Under the "good" scenario we are able to increase the capital investment up to \$220 million annual average per year. This would help us address some of the backlogged projects (runway expansions, crosswind runways, etc.) as well as partially fund some of the state/local programs. In addition the Program Administration costs would go from \$6 million under "do nothing" to \$12 million under "good". Annual total under "do nothing" is \$121 million versus \$242 million under "good".

The return on aviation investment under “do nothing” gets us \$121 million invested a year and we benefit by 1,900 jobs created and \$104 million in federal revenues leveraged. Some of the outcomes would be stagnant revenue, \$16 million of federal aid at risk, a decrease in preventive maintenance which leads to increased rehabilitation, and safety and services being at risk. “Good” gets us \$242 million invested a year and we benefit by 3,800 jobs created and \$146 million in federal revenues leveraged. Some of the outcomes would be restored curtailed programs, backlogged needs addressed, and funding of the Aviation Economic Development Fund.

Commissioner Brosnan asked if all of our air carriers pay the same 3 cents per gallon fuel tax.

Mr. Brinker answered that just the interstate air carriers that fly outside of Michigan borders. We do have a couple of small operators that fly intrastate and they don’t receive the rebate. Since 1995 we have a foreign trade zone at Detroit Metro Airport. Despite all the benefits that brings and all the job creation and economic development opportunities there, it does exempt the airlines that fly out of there on international flights from paying that 3 cents per gallon. We lose about \$4 million a year as a result of that.

Commissioner Brosnan asked if the ones paying the 3 cents per gallon are intrastate.

Mr. Brinker answered correct.

Commissioner Brosnan asked if the major carriers—Northwest, Delta—are all paying 1.5 cents.

Mr. Brinker answered correct.

Commissioner Brosnan asked if this was established by state law.

Mr. Brinker answered that the 3 cents per gallon was established in 1929, and in 1945 the rebate was initiated for the intrastate airlines and it’s remained unchanged to this day.

Commissioner Brosnan asked if it were correct that we have never set up an economic development incentive where anybody has paid less than the 1.5 cents.

Mr. Brinker answered that it was correct—other than the foreign trade zones that surround Detroit Metro Airport.

Craig Newell – Highway Needs

Our current investment is \$1.6 billion. Under the “do nothing” scenario we estimate that less than ½ our current investment would be realized and \$750 million in federal aid would be lost. By 2015 we anticipate a decline to around 65% good at our current investment level. Under the “do nothing” scenario, the condition of our pavements could decline an additional 10% all the way down to just 55% good. Under the “do nothing” scenario we would be unable to maintain the progress we have made in improving the condition of our bridges and the conditions would decline down to 80% good.

The impacts of doing nothing include the inability to match federal aid, increase in deterioration rate of roads and bridges, inability to address capacity improvement needs, and over 12,000 jobs would be lost versus the current investment level.

The “good” scenario would invest nearly \$2.9 billion annually; an increase of nearly \$1.3 billion per year. Under this scenario an additional \$390 million a year would be invested in the highway preservation program, an additional \$80 million a year in bridge preservation (would allow us to meet and sustain the bridge condition goal of 90% good), an additional \$35 million a year in the Safety and ITS programs, an additional \$675 million a year in the capacity improvements and new roads program, an additional \$7 million a year in the other highway facilities, an additional \$50 million a year in the highway maintenance program.

The “good” scenario with the additional \$390 million a year in pavement preservation would allow us to maintain our pavements at above 80% good. The additional investment in bridge preservation under this scenario would allow us to continue to make progress towards achieving the bridge condition goal, whereas under the current scenario we had leveled off at just below 90%.

Under the current investment strategy of \$185 million a year the trunkline bridge condition maintains the same 87% good by 2015. The “do nothing” scenario shows the effect of declining state revenue and the inability to match a portion of federal aid beginning in 2010. Trunkline bridge condition drops off significantly to 80% good by 2015.

In comparing the “good” scenario to the “current” scenario the number of jobs supported increases by nearly 18,000, an additional \$800 million in federal-aid would be leveraged, the pavement condition level achieved is 20% higher in the “good” scenario, and the estimated economic benefit is nearly double.

To summarize, in order to address the “good” scenario, MDOT’s annual level of investment would need to double from approximately \$2 billion currently to \$4 billion annually. The highway investment would increase by \$1.3 billion, passenger transportation investment would need to increase by \$524 million, and the aviation/rail/freight investment would need to increase by \$125 million annually.

The draft TF2 recommendations are due October 31st.

Director Steudle went back to the question asked earlier by Commissioner Brosnan regarding how much savings we anticipate receiving and added that there is about at 15% increase just for inflation (4% per year), that gets you to \$44 million. If you look what the bid price was, about \$42 million, that’s about 10%. If you take the difference between those, we anticipate a \$2.2 million savings just from inflationary numbers; not building in the cost increases of materials that will probably happen over the next 4 years.

Construction Quality Partnership (CQP)

The Construction Quality Partnership (CQP) was signed at the April 27, 2006 STC meeting.

Progress

One of the two most important task forces that were set up underneath the Steering Committee is the Design Task Force. It was made up of all the partners who began to address concerns of consistency, development of Scoping Manual, constructability reviews, and training. Most recently the CQP have tackled the utility conflicts that plague all DOTs nationally. The purpose is to improve communication and cooperation between designers, construction contractors, utilities and governmental agencies.

Training has been a major focus of CQP. In 2007 we held joint workshops on work zone traffic control, prevailing wage compliance, and technical training. In 2008 we have continued training and some is provided “on demand”. What has held us back a bit is bringing on a Third Party Administrator to oversee administration of training and certification, and to identify and develop appropriate training.

This is the 2nd year for the awards for which the categories are patterned after the National Association for Highway Quality. Nominations come in for the designer, prime contractor or roadway owners. The judging committee is made up of members of the CQP Steering Committee (ACEC, FHWA and MDOT).

Larry Tibbits, Chief Operations Officer, along with Chair Wahby and Director Steudle presented CQP Awards in the categories of:

Breaking the Mold (Innovation), awarded to Wade Trim (designer) for the US-24 Corridor Bridge Rehabilitation project in Dearborn and Dearborn Heights, and ; **Partnering**, awarded to Dan’s Excavating (prime contractor) for the I-94/US-24 Single Point Interchange (Arch Bridge) project in Wayne County.

III. **PRESENTATIONS**

Eight Mile Boulevard Association – Tami Salisbury, Executive Director

The Eight Mile Boulevard Association (8MBA) is a nonprofit organization formed in 1993 by 13 communities and 3 counties, which share a common border on 8 Mile Road between I-94 (east) and I-275 (west), to encourage economic development and create solutions. 8MBA staff will work together with these communities, as well as MDOT, businesses, nonprofit organizations and local residents along 8 Mile. Our mission is to revitalize and promote the 8 Mile business, transportation and residential corridor by linking the efforts of the public and private sectors.

The 8MBA is in the process of finalizing its application to the MDOT to have 8 Mile designated as a State Heritage Route because of its notable history as the baseline in Michigan—the old surveying line that forms boundaries between southern Michigan counties and Illinois and Wisconsin. If successful, we intend to seek assistance (federal and state) to implement aesthetic improvements.

Their annual operating budget is \$200,000 with 50% of this coming from the optional dues that each of the communities (100% participation) have paid. Twenty-five percent of the annual revenue comes from the businesses and residents along the corridor that belong to the Association, and the remaining 25% comes from the annual luncheon (averaging about 800-900 people each year). Anything done, physically, on the corridor is 100% grant funded and through donations.

Accomplishments over the past 15 years: awarded a \$3.4 million grant for bus stop improvements; created 11 city identification signs to identify bordering communities; 27 median perennial gardens along the corridor; annual Clean Team Campaign; annual Leadership Luncheon; present annual beautification awards; host annual Law Enforcement Initiative; Corridor Keeper Program (much like the MDOT courtesy vehicle but responsible for code and compliance and educating the business property owners as to why they're in violation of a code—does not have the authority to issue a formal citation). Additionally, Detroit has designated 8 Mile as a major corridor overlay area. As part of this adult uses are prohibited in the future along this road.

Ms. Salisbury asked for the Commission's assistance in partnering to improve 8 Mile Road for the future.

Chair Wahby commented that the Association is doing a tremendous job.

Cruise Woodward Drive Michigan 2008 (Dream Cruise) – William McEntee

The Woodward Dream Cruise is a cooperative project between the Oakland County Road Commission and MDOT. MDOT has had a booth at this celebration since 2006, manned by volunteers from both organizations, surrounded by a modern traffic signal and panels with old photos of Woodward.

The Dream Cruise is the world's largest one-day celebration of classic car culture that attracts over 1 million visitors, and more than 40,000 muscle cars, street rods, custom, collector and special interest vehicles. The Dream Cruise takes place along a 16-mile stretch of legendary Woodward Avenue through the nine host communities of Berkley, Birmingham, Bloomfield Hills, Bloomfield Township, Ferndale, Huntington Woods, Pleasant Ridge, Pontiac and Royal Oak, in Southeast Michigan.

Transportation Asset Management FY 2010 Approved Budget – Carmine Palombo

The FY 2010 budget is for \$1,626,400. This represents no increase over the FY 2009 request. The bulk of their budget each year is used for collecting PASER condition ratings on federal aid eligible roads. Pending any questions, Mr. Palombo asked for approval of the FY 2010 budget; none were forthcoming.

Chair Wahby entertained a motion. Motion was made by Commissioner Brosnan and supported by Commissioner Atkinson to approve the FY 2010 budget. Motion carried on a unanimous voice vote.

IV. **RESOLUTIONS**

Resolution of the State Transportation Commission of the State of Michigan Indicating the Intention of the State of Transportation Commission to Amend the Project List Attached to a Previously Adopted Commission Resolution – Myron Frierson

Mr. Frierson introduced himself for the benefit of Commissioner Girard. Further, he expanded on the previous discussion relating to the design/build/finance project and the issue of financial advisors. When we do financial transactions we have a team of advisors consisting of financial advisors, prominent law firms in the state as bond counsel and the Attorney General's office; we even have a council for the underwriters.

The project list was previously revised on April 24, 2003, May 26, 2005, June 29, 2006, and September 27, 2007. Upon approval by the Commission, this resolution will be transmitted to the Legislature for the required 30-day notification period. Amending the project list will allow interest earnings on the bond proceeds to be expended on projects. Additionally, some changes have been made to the project list to better address the program needs. Exhibit Z attached to this resolution contains the revised project list. The final resolution amending the project list will be provided to the Commission at the September 25, 2008, meeting.

Pending any questions, Mr. Frierson asked for approval of this resolution; none were forthcoming.

Chair Wahby entertained a motion to approve the above mentioned Resolution that would Amend the Project List Attached to a Previously Adopted Commission Resolution. Motion was made by Commissioner Scalici and supported by Commissioner Atkinson to approve the resolution. Mr. Kelley called the roll; all answers were affirmative. Motion carried on a unanimous roll call vote.

Resolution of the State Transportation Commission Amending its Resolution Adopted On January 31, 2008, Entitled: "Resolution of State Transportation Commission Authorizing the Issuance and Sale of State of Michigan State Trunk Line Fund Refunding Bonds" – Myron Frierson

This resolution authorizes the sale of the State Trunk Line Fund Refunding Bonds whose current authorization will expire on December 31, 2008. The approval of this resolution will extend the expiration date to December 31, 2009.

Pending any questions, Mr. Frierson asked for approval of this resolution; none were forthcoming.

Chair Wahby entertained a motion to approve the above mentioned Resolution that would Authorize the Issuance and Sale of State of Michigan State Trunk Line Fund Refunding Bonds". Motion was made by Commissioner Atkinson and supported by Commissioner Brosnan to approve the resolution. Mr. Kelley called the roll; all answers were affirmative. Motion carried on a unanimous roll call vote.

Resolution of the State Transportation Commission Amending its Resolution Adopted on January 31, 2008, Entitled: "Resolution of State Transportation Commission Authorizing the Issuance and Sale of State of Michigan Comprehensive Transportation Refunding Bonds" – Myron Frierson

This resolution authorizes the sale of Comprehensive Transportation Fund Refunding Bonds whose current authorization will expire on December 31, 2008. The approval of this resolution will extend the expiration date to December 31, 2009.

Pending any questions, Mr. Frierson asked for approval of this resolution; none were forthcoming

Chair Wahby entertained a motion to approve the above mentioned Resolution that would Authorize the Issuance and Sale of State of Michigan Comprehensive Transportation Refunding Bonds". Motion was made by Commissioner Atkinson and supported by Commissioner Brosnan to approve the resolution. Mr. Kelley called the roll; all answers were affirmative. Motion carried on a unanimous roll call vote.

Resolution of the State Transportation Commission Amending its Resolution Adopted on March 27, 2008, Entitled: "Resolution of the State Transportation Commission Authorizing the Issuance and Sale of State of Michigan State Trunk Line Fund Bonds and Grant Anticipation Notes" – Myron Frierson

This Resolution authorizes the issuance and sale of the State Trunk Line Fund and Grant Anticipation Notes whose current authorization will expire on December 31, 2008. The approval of this resolution will extend the expiration date to December 31, 2009.

Pending any questions, Mr. Frierson asked for approval of this resolution none were forthcoming.

Chair Wahby entertained a motion to approve the above mentioned Resolution that would Authorize the Issuance and Sale of State of Michigan State Trunk Line Fund Bonds and Grant Anticipation Notes". Motion was made by Commissioner Brosnan and supported by Commissioner Scalici to approve the resolution. Mr. Kelley called the roll; all answers were affirmative. Motion carried on a unanimous roll call vote.

Resolution of the State Transportation Commission Amending its Resolution Adopted on July 27, 2006, as Amended on September 27, 2007 and January 31, 2008, Entitled: "Resolution of the State Transportation Commission Authorizing the Issuance and Sale of State of Michigan State Trunk Line Fund Bonds and Grant Anticipation Notes" – Myron Frierson

This Resolution authorizes the sale of the remaining Jobs Today Bonds whose current authorization will expire on September 30, 2008. The approval of this resolution will extend the expiration date to December 31, 2009.

Pending any questions, Mr. Frierson asked for approval of this resolution; none were forthcoming.

Chair Wahby entertained a motion to approve the above mentioned Resolution that would Authorize the Issuance and Sale of State of Michigan State Trunk Line Fund Bonds and Grant Anticipation Notes”. Motion was made by Commissioner Brosnan and supported by Commissioner Atkinson to approve the resolution. Mr. Kelley called the roll; all answers were affirmative. Motion carried on a unanimous roll call vote.

V. **OVERSIGHT**

Commission Agreements (Exhibit A) – Myron Frierson

Mr. Frierson noted the change to the dollar amount in Item #5 from \$42,299 to \$43,299. He then presented information on 82 agreements. Pending any questions, Mr. Frierson asked for approval of Exhibit A; none were forthcoming.

Chair Wahby entertained a motion. Motion was made by Commissioner Brosnan and supported by Commissioner Atkinson to approve Exhibit A. Motion carried on a unanimous voice vote.

Commission Agreements (Exhibit A-Supplemental) – Myron Frierson

Mr. Frierson presented information 1 Highways project. Pending any questions, Mr. Frierson asked for approval of Exhibit A-Supplemental; none were forthcoming.

Chair Wahby entertained a motion. Motion was made by Commissioner Brosnan and supported by Commissioner Scalici to approve Exhibit A-Supplemental. Motion carried on a unanimous voice vote.

Bid Letting Pre-Approvals (Exhibit A-1) – Myron Frierson

Mr. Frierson, for the sake of time, did not go into the recap of the lettings that occurred on August 1 and 8, 2008, however he presented information on 44 projects (23 State; 21 Local). Pending any questions, Mr. Frierson asked for approval of Exhibit A-1; none were forthcoming.

Chair Wahby entertained a motion. Motion was made by Commissioner Brosnan and supported by Commissioner Atkinson to approve the September bid letting. Motion carried on a unanimous voice vote.

Bid Letting Pre-Approvals (Exhibit A-1-Supplemental) – Myron Frierson

Mr. Frierson presented information on 4 State projects. Pending any questions, Mr. Frierson asked for approval of Exhibit A-1-Supplemental; none were forthcoming.

Chair Wahby entertained a motion. Motion was made by Commissioner Brosnan and supported by Commissioner Atkinson to approve Exhibit A-1-Supplemental. Motion carried on a unanimous voice vote.

Letting Exceptions Agenda (Exhibit A-2) – John Polasek

Mr. Polasek introduced himself for the benefit of Commissioner Girard and briefly explained his role to the Commission. He then provided information on 5 projects (2 State projects and 3 Local projects) that were over the engineers’ estimate and are

accompanied by justification memos. Pending any questions, Mr. Polasek asked for approval of Exhibit A-2; none were forthcoming.

Chair Wahby entertained a motion. Motion was made by Commissioner Scalici and supported by Commissioner Girard to approve Exhibit A-2. Motion carried on a unanimous voice vote.

Contract Adjustments (Exhibit B) – John Friend

Mr. Friend introduced himself for the benefit of Commissioner Girard and briefly explained his role to the Commission.

Mr. Friend updated the Commission of the “walk-on” project from the July 31, 2008 meeting (Local Extra Item #2008-131 [0.74 kilometers of railroad grade separation...in the City of Plymouth, Wayne County] for \$1.4 million in project acceleration costs) which was given conditional approval, subject to completion of internal review. The Commission had asked for cost justification to support the amount adjustments, and for a user cost calculation which documented that the accelerated project cost were justified. Both pieces of information were received to the satisfaction of the department, the Attorney General and Commission Audits. The contract modification (Local Extra Item #2008-138) did make the August 19th Ad Board and was approved. This item is back again for approval for additional items. The department has been in contact with SEMCOG and they, as well as Wayne County, are aware that our financial contribution is capped. As we approach that cap in State contributions, the dollars will have to be made up through federal highway aid or the county match dollars themselves.

Mr. Friend then provided information for 6 Extra MDOT and 7 Extra Local projects. Regarding the performance matrix, we are approaching the end of the fiscal year and the target of the department running the program within 5% remains very positive. They are approaching the \$830 million mark in terms of contract costs finalized and are well within the guideline at 2.5% less than the 5% established. Pending any questions, Mr. Friend asked for approval of Exhibit B; none were forthcoming.

Chair Wahby entertained a motion. Motion was made by Commissioner Brosnan and supported by Commissioner Scalici to approve Exhibit B. Motion carried on a unanimous voice vote.

VII. PUBLIC COMMENTS

Chair Wahby asked if any member of the audience wanted to address the Commission; none were forthcoming.

Chair Wahby asked if any Commissioner wanted to address the Commission.

Commissioner Brosnan thanked and commended the MDOT staff for their informative presentations as well as the insightful tour of the GM Proving Grounds the day before.

ADJOURNMENT

There being no further business to come before the Commission, Chair Wahby declared the meeting adjourned at 12:00 p.m.

The next full meeting of the Michigan State Transportation Commission will be held on September 25, 2008, at the Detroit Mexicantown International Welcome Center, 2835 Bagley Street, in Detroit, Michigan, commencing at the hour of 9:00 a.m.

Frank E. Kelley
Commission Advisor